

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Zubaty, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Gallatin County, Kentucky, for the year ended December 31, 2004.

We engaged Tichenor & Associates, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Gallatin County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GALLATIN COUNTY CLERK

**For The Year Ended
December 31, 2004**

Tichenor & Associates, LLP has completed the Gallatin County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$23,311 from the prior year, resulting in excess fees of \$1,072 as of December 31, 2004. Revenues decreased by \$46,723 from the prior year and expenditures decreased by \$24,664.

Report Comment:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

On April 6, 2004, \$49,607 of the Gallatin County Clerk's deposits of public funds were uninsured and unsecured by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
COMMENT AND RECOMMENDATION	10
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	12

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The Honorable George Zubaty, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Gallatin County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2005, on our consideration of Gallatin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

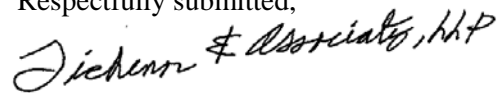
Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The Honorable George Zubaty, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Gallatin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP". The signature is written in dark ink and is positioned below the phrase "Respectfully submitted,".

Tichenor & Associates, LLP

Audit fieldwork completed -
September 2, 2005

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services		\$	5,953
Fiscal Court			21,819
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	228,792	
Usage Tax		496,054	
Tangible Personal Property Tax		553,097	
Late Fees		3,118	
Other-			
Fish and Game		7,906	
Marriage		3,105	
Occupational		3,717	
Deed Transfer Tax		19,778	
Delinquent Tax		88,699	1,404,266
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		6,443	
Real Estate Mortgages		16,673	
Chattel Mortgages and Financing Statements		23,681	
Powers of Attorney		582	
All Other Recordings		10,765	
Charges for Other Services-			
Copywork		4,451	62,595
Other:			
Miscellaneous			603
Interest Earned			411
Total Revenues		\$	<u>1,495,647</u>

The accompanying notes are an integral part of this financial statement

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 185,066

Usage Tax 479,489

Tangible Personal Property Tax 203,777

Licenses, Taxes, and Fees-

Fish and Game 7,692

Delinquent Tax 10,335

Legal Process Tax 7,460 \$ 893,819

Payments to Fiscal Court:

Tangible Personal Property Tax 61,184

Delinquent Tax 9,099

Deed Transfer Tax 14,847

Occupational Licenses 2,888

Payment of loan from County 10,000

Miscellaneous 800 98,818

Payments to Other Districts:

Tangible Personal Property Tax 266,023

Delinquent Tax 48,242 314,265

Payments to Sheriff

540

Payments to County Attorney

12,755

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 63,290

Part-Time Salaries 24

Overtime 198

Employee Benefits-

Employer's Share Social Security 9,547

Contracted Services-

Printing and Binding 557

Materials and Supplies-

Office Supplies 6,118

Election Expense 7,256

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-			
Computer Service	\$	5,182	
Copier Lease		1,580	
Conventions and Travel		2,130	
Dues		300	
Postage		5,056	
Miscellaneous		456	
Refunds		1,444	
Telephone		2,766	
Capital outlay-			
Office Equipment		1,468	\$ 107,372
Total Expenditures			<u>\$ 1,427,569</u>
Net Revenues			68,078
Less: Statutory Clerk Salary			<u>60,313</u>
Excess Fees			7,765
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>3,093</u>	<u>6,693</u>
Excess Fees Due County for 2004			1,072
Payments to Fiscal Court - March 24, 2005			<u>1,072</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 6, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$49,607 of public funds uninsured and unsecured.

GALLATIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2004
 (Continued)

Note 3. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 6, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	50,000
Uncollateralized and uninsured	<u>49,607</u>
Total	<u><u>\$ 199,607</u></u>

Note 4. Leases

The Clerk's office was committed to a lease agreement with Toshiba for a copier. The agreement requires a monthly payment of \$140 for 60 months to be completed on February 1, 2005. The total balance of the agreement was \$140 as of December 31, 2004.

COMMENT AND RECOMMENDATION

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 6, 2004, \$49,607 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Clerk's Response:

I am working with the bank to make sure they know when I may go over the amount.

PRIOR YEAR:

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

The clerk now has compensating controls in place to offset the lack of adequate segregation of duties.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable George Zubaty, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Gallatin County Clerk for the year ended December 31, 2004, and have issued our report thereon dated September 2, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

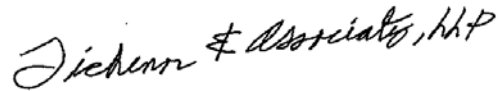
As part of obtaining reasonable assurance about whether the Gallatin County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed -
September 2, 2005

